2005
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Industry, Tourism and Investment

NWT Economic Trends

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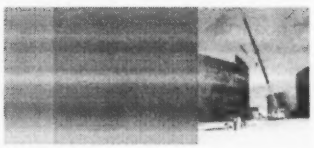
Oil and Gas Expenditures and Forfeitures



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The NWT is recognized as holding a significant share of Canada's undeveloped oil and gas potential. Analysts closely monitor bids for exploration licenses to gauge how oil and gas companies view the potential in a specific region. For example, in May 2005 the winning bids on six parcels of crown land in the Central Mackenzie Valley totaled $58 million.

The successful bidders have submitted work deposits totaling $14.5 million, which represents 25% of their work proposal bid. During the first four or five years of the license the bid dollar value must be spent and one well must be drilled.

At any one time, an oil and gas firm may be evaluating a portfolio of properties in several diverse regions. What makes a good project varies depending on such factors as the interpretation of the local geology or seismic data, and the ability to bring product to market or commodity prices. Firms juggle their portfolio and will drop or deal their poorer prospects.

Government revenues from oil and gas development still accrue to Canada. Shown in table one below, the federal government earned $37.6 million in oil and gas revenues and forfeitures of work deposits in the NWT in 2004. The $17 million in forfeitures primarily relates to an exploration license held by one company in the Mackenzie delta. In this case their evaluation showed the property had potential, but did not warrant drilling a well at this time. The property may come up for auction again and could be picked up by the same or a competing company.

By comparison, Government of Alberta oil and gas revenues over 2003/04 were $7.4 billion.

The construction of the Mackenzie Valley gas project is expected to remove some uncertainty associated with getting the product to market. This could lead to intensive exploration in more regions and expand the number of firms interested in the NWT. In the competitive arena of oil and gas this could translate into more government revenues.

Table 1: Government Oil and Gas Revenues and Forfeitures ($)

Source	1999	2000	2001	2002	2003	2004
Royalties	7,138,169	13,433,264	24,656,709	21,751,369	24,492,180	20,558,915
Other	309,885	1,396,774	13,726	2,412,571	961,261	17,003,085
Total	**7,448,054**	**14,830,038**	**24,670,435**	**24,163,940**	**25,453,441**	**37,562,000**

Northwest Territories

(867-873-7361)
http://www.gov.nt.ca/iti/iea/index.htm

Fuel Prices in the NWT

Consumer Costs in the NWT Compared to Other Areas

MJ Ervin & Associates is a company specializing in all aspects of petroleum marketing, including performance benchmarking, price/margin analysis, and industry economic research and analysis. The company does a weekly survey of pump and other fuel prices across Canada; table two below compares Yellowknife fuel prices during the week of May 9, 2005 to other communities in Canada. ITI collected data on propane and furnace oil prices for Yellowknife.

Retail gasoline prices in Yellowknife are about 17 percent above Canadian averages. However, some service stations, like Yellowknife Direct Charge Co-operative, offer customer discounts reducing the actual variance to around 7 percent. Yellowknife prices for other fuels, such as propane and furnace oil, are currently lower than every other city on the survey and 10-14% below national averages. This could be a seasonal impact or a temporarily oversupplied market.

Table 2: Fuel Oil Prices in Canada and Yellowknife – May 2005 (cents per litre)

10-May-05	Regular			Diesel		Propane
DATE (2005)	Price	No Tax	Tax Rate	Pump	No Tax	Price / Prix
WHITEHORSE	104.8	81.7	28%	101.9	84	67
VANCOUVER	99	62	60%	96.5	65.2	57.9
PRINCE GEORGE	98.9	67.9	46%	86.4	61.7	
KELOWNA	97.9	67	46%	88.9	64.1	54.9
YELLOWKNIFE *	102.9	75.5	36%	94.4	75.1	48.7
EDMONTON	81.3	57	43%	80.7	62.4	57.4
REGINA	89.9	59	52%	84.2	59.7	69.9
PRINCE ALBERT	91.9	60.9	51%	86.7	62	67.9
BRANDON	92.2	64.7	43%	85.4	64.3	58.9
SAULT STE MARIE	94.7	63.8	48%	87.9	63.8	80.9
THUNDER BAY	87.6	57.2	53%	87.3	63.3	64.4
NORTH BAY	87	56.6	54%	85.7	61.8	
TIMMINS	96.6	65.6	47%	86.4	62.4	
SHERBROOKE	93.4	56	67%	92.4	60.1	
GASPÉ	92.8	60.1	54%	91.6	59.4	
CHICOUTIMI	91.8	59.3	55%	92.5	60.2	71.9
BATHURST	98.2	60.9	61%	96.4	62.9	
CHARLOTTETOWN	97.3	60.8	60%	96.5	66.5	
GANDER	102.7	62.8	64%	104.7	70.5	
CORNER BROOK	99.2	59.8	66%	103	69.1	89.9
Canada average (V)	**88.1**	**55.8**	**58%**	**87.5**	**61.6**	**56.7**

Source: MJ Ervin Survey - At the Pumps, ITI

** YK prices obtained from local distributors*

Household Spending

Household spending represents a critical service and retail market

Overview

Statistics Canada has published 2003 household spending information for Canada and the provinces. The average household in the NWT spends $77,073 per year, the highest in Canada. By comparison, households in Nunavut spend $68,841 while Yukon households spend only $64,675 per year.

Increased spending in the NWT likely reflects two factors - increased disposable income and higher costs. Compared to the average Canadian household, households in the NWT spend $15,900 more per year (26% more); see table 3 below.

The table also highlights some interesting variances between NWT and Canadian households. Interestingly, NWT households actually spend 33% less on education and 44% less on health care than the average Canadian household. Overall, however, these costs represent a relatively minor share of household spending; in Canada, 2% and 3% respectively.

The average NWT household spends $15,900 per year more than the Canadian average. The major contributors towards these added costs include $2,800 more per year on shelter, $2,700 more on recreation, $2,300 more on income taxes and $2,100 more per year on food.

Shelter costs include heating cost and other utilities. The added cost of income taxes partly reflect higher NWT incomes. Recreational costs include the added costs of airfare, as well as the cost of recreational property (cabins, snowmachines and so on).

Spending by NWT households also reflect different buying habits. Compared to the average Canadian household, NWT residents spend significantly more on:

- Games of chance - 126% more;
- Tobacco and alcoholic drinks - 85% more
- Recreation - 74% more

Table 3 -NWT Household Spending Compared to Canada 2003

	Northwest Territories		Canada	
Food	$ 8,893	12%	$ 6,791	11%
Shelter	$ 14,398	19%	$ 11,584	19%
Household operation	$ 3,527	5%	$ 2,870	5%
Household furnishings and equipment	$ 2,262	3%	$ 1,751	3%
Clothing	$ 3,199	4%	$ 2,436	4%
Transportation	$ 9,934	13%	$ 8,353	14%
Health care	$ 1,057	1%	$ 1,588	3%
Personal care	$ 1,055	1%	$ 834	1%
Recreation	$ 6,251	8%	$ 3,591	6%
Reading materials and other printed matter	$ 364	0%	$ 283	0%
Education	$ 563	1%	$ 1,007	2%
Tobacco products and alcoholic beverages	$ 2,762	4%	$ 1,489	2%
Games of chance (net amount)	$ 615	1%	$ 272	0%
Miscellaneous	$ 921	1%	$ 904	1%
Personal income taxes	$ 14,671	19%	$ 12,370	20%
Personal insurance payments and pension contributions	$ 4,683	6%	$ 3,505	6%
Gifts of money and contributions	$ 1,918	2%	$ 1,522	2%
Total expenditures	**$ 77,073**	**100%**	**$ 61,152**	**100%**

Source: Statistics Canada, CANSIM, table 203-0001. Last modified: 2005-03-03.

Where People Work in the NWT and Canada

The NWT has the lowest portion of "home workers"

Defining a Worker

The 2001 Census included questions on work place location; the results are shown in Table 4 below. A person was defined as working if, during the week (Sunday to Saturday) prior to Census Day (May 15, 2001):

- They did any work at all for pay or in self-employment or without pay in a family farm, business or professional practice; or
- They were absent from their job or business, with or without pay, for the entire week because of a vacation, an illness, a labour dispute at their place of work, or any other reasons.

Defining the Place of Work

Worked at home: Persons whose job is located in the same building as their place of residence, persons who live and work on the same farm, building superintendents and teleworkers who spend most of their work week working at home.

Worked outside Canada: Persons who work at a location outside Canada. This can include diplomats, Armed Forces personnel and other persons enumerated abroad. This category also includes recent immigrants who may not currently be employed, but whose job of longest duration since January 1, 2000 was held outside Canada.

No fixed workplace address: Persons who do not go from home to the same workplace location at the beginning of each shift. Such persons include building and landscape contractors, travelling salespersons, independent truck drivers, etc.

Usual place of work: Persons who are not included in the categories described above and who report to the same (usual) workplace location at the beginning of each shift are included here.

Observations

The NWT has the lowest portion of people working at home or with no fixed workplace address. This may reflect the geography in the NWT as well as restrictions on home business operations. For example, Saskatchewan has a signficant number of farmers working from their home.

The low number of workers with no fixed address likely reflects economic leakages to Alberta. For example, the NWT has relatively few commercial trucks within the territory. Due to the tight local labour market many workers for NWT projects are recruited from southern Canada.

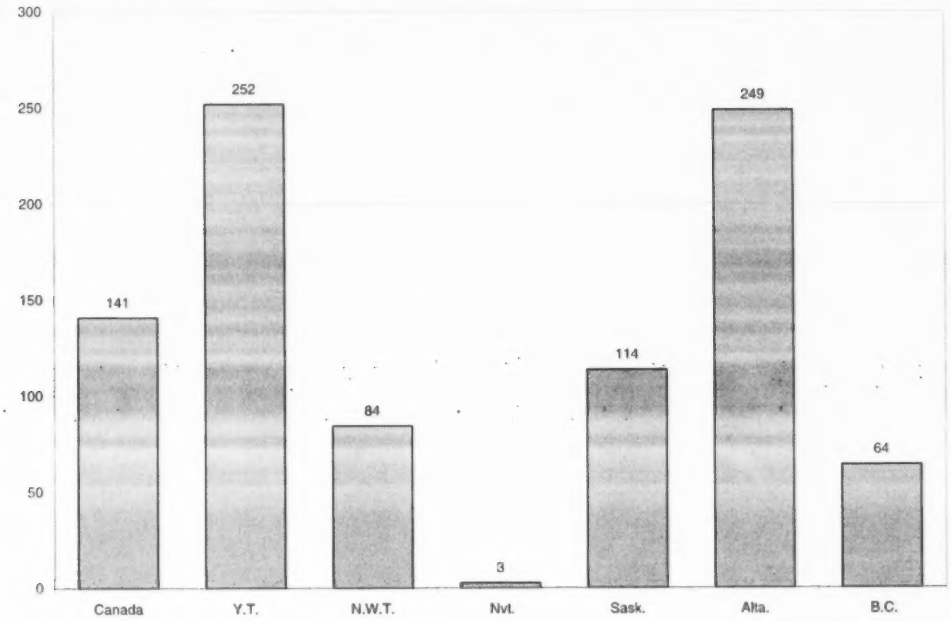
Table 4 - NWT Household Spending Compared to Canada 2003

	Worked at home	Worked outside Canada	No fixed workplace address	Usual place of work
Canada	8%	0%	9%	83%
Newfoundland and Labrador	6%	0%	8%	85%
Prince Edward Island	9%	0%	10%	81%
Nova Scotia	7%	1%	10%	83%
New Brunswick	6%	0%	9%	84%
Quebec	7%	0%	7%	87%
Ontario	7%	1%	8%	84%
Manitoba	10%	0%	8%	82%
Saskatchewan	18%	0%	8%	73%
Alberta	10%	0%	12%	78%
British Columbia	9%	1%	11%	79%
Yukon	7%	0%	10%	83%
Northwest Territories	4%	0%	8%	88%
Nunavut	5%	0%	9%	86%

Source: Statistics Canada, CANSIM, table 203-0001. Last modified: 2005-03-03.

Number of Registered Trailers

Graph 1 - Registered Trailers Per 1,000 Residents



Source: Statistics Canada, CANSIM, table 405-0004

Statistics Canada maintains annual statistics on light vehicles, heavy vehicles (trucks), buses, trailers and off-road vehicles registrations obtained from the provincial and territorial governments. Data on registered trailers in select provinces is shown in Graph 1 above. For comparative purposes, the data has been modified to reflect the number of registered trailers per 1,000 residents.

As shown in the chart, the NWT has comparatively fewer registrations than most provinces, especially Alberta and the Yukon.

These results seem to indicate a reliance on non-NWT carriers or non-NWT registered vehicles for winter resupply. During the winter months, a huge volume of goods are transported over a short period of time.

Car Sales in the NWT Economy

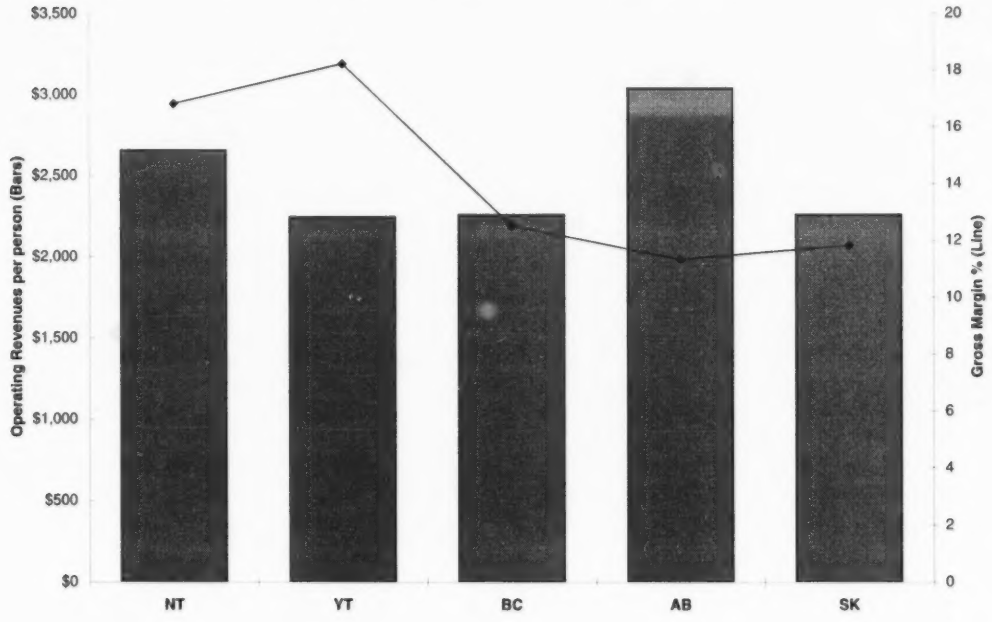
The rapidly growing NWT economy provides high incomes, which are a major driver for a thriving retail trade. The NWT's new car dealers had revenues of $112 million in 2003 which works out to $2,650 per capita. This is the second highest per capita sales number in Canada after Alberta's figure of $3,030. In comparison, the Yukon, B.C. and Saskatchewan had new car sales of around $2,250 per capita.

The gross margins earned by new car dealers are also higher in the North averaging 16.8% in the NWT and 18.2% in the Yukon. The comparative figure for Alberta, B.C. and the Saskatchewan ranged from 11.3% to 12.5%.

The used car business is smaller but more profitable in every region of the country. In the NWT used car sales of $13.5 million generated a gross margin of almost 22%. In other regions margins of up to 28% are reported. No doubt "for sale by owner" is a major factor in this market and dealers need to know the market to turn a good profit.

Surprisingly, the NWT also fares well on a length of road per thousand population comparison. We have 128.2 km per 1,000 versus British Columbia at 15.7 km per 1,000. British Columbians may have more places to drive but they must be prepared to share the road.

Graph 2: Operating Revenues Per Person and Gross Margin % for New Car Sales



Robust Capital Investment Expected for 2005

Maintaining a high standard of living is of great importance to all of us. In a modern economy this requires a productive skilled workforce that efficiently utilizes all available assets. Capital investment is the construction of new assets such as buildings and the purchase of new equipment. It is a crucial element for an economy to remain vibrant.

For example, the capital investment required for constructing the Ekati [TM] and Diavik diamond mines created significant business and employment opportunities in the NWT.

Total capital investment increased by 46% in 2004 to over $1.2 billion, with the private sector accounting for 86% of the total. Capital construction by private industry is expected to remain the main driver for the NWT economy in 2005. This is dominated by the nonrenewable resource industries that accounted for 74% of total activity in 2004, up from 66% in 2003.

Several major mining projects underway are expected to result in a 44% growth in private sector capital investment in 2005. The projects include construction of De Beers' $636 million Snap Lake mine project, dike construction at the Diavik diamond mine and underground development at Ekati Diamond Mine[TM].

In comparison, the public sector capital investment is significantly smaller and less volatile. The total for 2004 was $168 million, a 17% increase over 2003. The intention for 2005 is 9% less at $153.3 million.

The outlook for capital investment in the NWT is positive. However, capital investment will be cyclical given the large size and uncertain timing of major resource projects such as the Mackenzie Valley gas pipeline and additional mines.

Table 5: Private and Public Capital Investment (In millions of $'s)

	2005 Intentions	2004 P*	2003	2002	2001	2000	1999
Private							
Construction	1,109	796	565	892	1,105	617	318
Machinery & Equipment	360	226	109	272	171	116	110
Public							
Construction	122	135	114	157	101	63	90
Machinery & Equipment	31	34	29	30	24	28	36

P = Preliminary Estimate*

Source of Immigrants to the NWT

Immigration continues to play a key role in development of the NWT

Population growth is a key component of economic growth. It is a major driver for investment in housing and government services such as education and infrastructure improvements. Immigration helps to offset the aging of the population, which is caused by low birth rates.

The Canadian population is growing by about 290,000 new residents per year. Births of 330,000 are offset by deaths of 230,000. This natural rate of growth is supplemented by net immigration of 190,000 people per year.

The NWT population growth of about 500 per year is more variable than Canada's. For the year ended June 30, 2004 the NWT had 636 births and 174 deaths for a natural increase of 462. The NWT attracted 105 new immigrants and had net emigration of 33. It also lost a net 31 citizens to interprovincial migration.

Immigration has played a key role in the development of the NWT over the years. In the 2001 census 2,355 NWT citizens or one person in every 17 indicated that they were born outside Canada. The largest source of immigrants was Europe at 45%, Asia 33%, the U.S. 9%, Africa 6% and Central and South America 5%. By country, the U.K. was the most important source at almost 20% of immigrants.

In comparison, Canada's immigrant population of 5.45 million translates into one in every six citizens. The higher rate for Canada as a whole is a reflection of the fact that most immigrants settle in the large urban areas in the south. Canada's immigrant population was sourced from Europe at 42%, Asia 37%, South and Central America 11% and the US 4%.

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